



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

FRENCH MONEY, BANKING, AND FINANCE DURING THE GREAT WAR

SUMMARY

I. The Wealth of France, 64. — II. Money; gold in the bank, silver, 67. — III. The Bank of France, 68. — Note circulation, 69. — Changes, 1914-15, 70. — IV. Private and Savings Banks, 72. — V. Foreign Exchange, 76. — The exchange panic of 1914, 77. — Course of exchange, 1915, 78. — VI. Public Finance, 78. — The various forms of loans, 80. — Budget changes of the future, 82. — VII. Comparison with 1870-71, 83.

It is of great interest to put before the reader the elements of French wealth, to inquire into the French monetary and banking system and its working during the great war, to examine our public finance, and to explain how the government was able to raise the billions wanted for military and naval expenditure. A comparison with what happened forty-five years ago, at the time of the Franco-Prussian war of 1870-71, will form the conclusion of the present study.

I. THE WEALTH OF FRANCE

France has one of the richest soils in the world, and, on a comparatively small space, enjoys many kinds of various crops, with different climates in the north and the south, everywhere temperate and most suitable to the best development of vital energies. The value of France's grain crops of every description in 1912 was 4,400 millions of francs; of potatoes, 1,100; of hay, 1,350; the whole agricultural yearly product being about 11 billions.

The production of pig-iron has been 5 millions of tons; of steel, 4 millions; of coal, 41 millions.

As a rule, France's wheat production is about 10 per cent under her average consumption; beyond this she needs no food imports, or rather her imports of some products are made good by exports of other sorts for an equal value. The wheat crop of 1914, amounting to about 87 millions of metric cwt., was good and has been collected successfully, in spite of the fact that all the valid men were under the colors from the 1st of August, and women, children, and elderly peasants had to work hard as substitutes for their absent husbands, fathers, and sons. So it is this year (1915): the crops are good, except in the southern part of the country, where they have been damaged by rain; and every available force has been contributory to the harvest work. Meat has to be imported to some extent. Enormous quantities of it are daily supplied to the soldiers, and frozen meat will have to be imported in order to save the French cattle and to keep the herds unimpaired. Vineyards have been suffering to a certain extent from an abnormal waterfall, but the deficiency will be easily imported from Algeria. As a rule France could live on what she produces: this fact gives a peculiar strength to a country.

Silk is very important in French economy. France is a small producer of the raw material, but she has for centuries been the foremost in the silk industry. The so-called *condition des soies*, *i. e.*, the exchanges of silk, are more important in Lyons than in any other place: 10,810 tons in 1913, against 10,497 in Italy, 3,483 in Japan, 1,365 in the United States.

The value of the land, at the end of 1912, was 62 billions; the value of the buildings, 65 billions. The value of the securities held by the people is considered to be

about 100 billions, out of which 40 are foreign bonds or shares. Deducting the debts and adding the estimated value of furniture of every kind, the total wealth of the country is considered to be about 200 billions of francs.

The foreign trade in 1912 was as follows (in millions of francs):

	General trade	Special trade
Imports	10,293	8,230
Exports	8,825	6,712
Excess of imports	1,468	1,528

Under the name of general trade are listed all the goods which arrive either by sea or by terrestrial borders, and all the goods shipped by the same way. The special trade includes only the merchandise which is delivered to consumers residing in France and the French products exported.

France has a large commercial fleet numbering 17,000 vessels, against 20,000 in the United Kingdom; but the tonnage is much smaller, being only 1,519,000 against 11,879,000.

A very important feature of the French peasantry and middle class is the habitual thrift. It is well known that most of them do not spend their yearly income, however mean it may be, and put aside small or large sums, which they generally invest in French or foreign securities: this is one of the factors that have made France a creditor country to such a large extent. The ownership by Frenchmen of foreign bonds and shares makes them receive yearly from all parts of the world considerable sums of money, which, added to the amounts spent in Paris and other French resorts by foreigners, keep the exchanges in normal times always favorable to France.

Whatever the public debt will turn out to be after the war, every cent on it will be paid.

II. MONEY

France being, as a rule, a creditor country, receiving in an average year more from foreigners than she has to pay abroad, has not experienced any difficulty in keeping within its borders a considerable amount of gold. From careful calculations, it is believed that in 1914 this amount was 7 billions francs, of which 4 billions were in the vaults of the Bank of France and 3 in the hands of private people. Practically, since the war broke out, gold disappeared from the circulation. It has been replaced by paper, five franc silver coins, and subsidiary tokens made of silver. Copper and nickel continue as before to be used for petty payments. At the beginning of the war gold had been hoarded in large quantities by many Frenchmen, who, by an ancestral tradition, are fond of metallic money and like always to put it aside. Lately a movement has begun, of which the author of this article is proud to have been the initiator, and which brings large quantities from private vaults to the Bank of France, in exchange of notes. People have realized that their gold lying idle in their safe-boxes is of no advantage to them (as they do not use it and hoard it without any definite purpose), and is on the contrary very useful to the bank, whose assets it increases, giving additional support for the issue of notes. Everybody, from the big concerns down to the smallest investor and modest citizen, has understood his duty and fulfils it with the vivid patriotism which is nowadays the finest feature of France. Many hundred million francs of gold are now pouring into the reservoir of the bank. The gold in hand, in spite of the fact that the bank has handed over to the Bank of England 500 million francs, has increased about half a billion since the beginning of the war.

During the same period, the amount of silver coins held has decreased from 700 to 350 millions of francs, which is also an interesting feature of the balance sheet. These five franc pieces, so called *écus*, are not only of French coinage, but also, in consequence of the Latin Union, Belgian, Italian, Swiss, and Greek. In August, 1914, there was a great demand for specie in France as well as in other parts of Europe: the Bank of France released about half of her silver stock, which was very wise. She might as well have let the whole go, as gold is the only firm basis for the notes. The German Reichsbank took advantage of the same circumstances and let the whole of the thalers be taken by the public. In time of war, people are fond of every kind of hard money, and where they do not get gold, they are satisfied with silver.

Not only 5 franc coins at 900/1000 fine, but also pieces of 2, 1, and $\frac{1}{2}$ franc at 835/1000 fineness, have been eagerly sought by the public, so that, in some remote parts of the country, *e. g.*, in the southwest, local authorities, mainly chambers of commerce, have been led to issue one franc and half a franc notes, in order to provide the circulation with sufficient means. Nickel pieces of 25 centimes have been in demand for account of manufacturers who wanted them for industrial use. German agents are said to have been very active in picking them up in northern France and Belgium.

III. THE BANK OF FRANCE

Banking plays a most conspicuous part in the monetary system of a country engaged in war. Usually the monetary stock cannot be increased at once; on the contrary it is threatened with several dangers, of which the effect is likely to be a diminution of that stock rather

than an increase. So the printing press is at work, and either the banks of issue or the Treasury, or both, are busy engraving billions of notes. France has no more escaped this necessity than the other belligerents; but she has done it in a simple straightforward way, which contrasts favorably with the tortuous and dark ways by which some of her enemies have tried to conceal the real state of things.

Let the reader recall the organization of the Bank of France. There is no legal relation between the amount of notes issued and any asset, whether cash or discounted drafts. The only principle laid down by the law is that the bank, which enjoys since 1849 a full monopoly for the issue of notes in the whole of France, is bound to manage her affairs in such a way that she ought to be always able to redeem her notes in cash.

She is more free in her policy than any other bank of issue; a very large power is in the hands of her directors, elected by the shareholders, and her governor, nominated by the government. In fact the brake put on any tendency to increase unduly the volume of the notes is ordinarily the obligation incumbent on the bank to repay them in cash. But in times of emergency, the state as a rule relieves her from that duty, and law makes the notes legal tender, not only between citizens but also regarding the bank. The government expects the bank to advance money to it, creating notes for that purpose; as the notes are pledged by a debt which is not repayable before the end of the war, the bank would not be able to collect gold enough to have these fresh notes redeemed at once, should they be presented at her counters. As no distinction is made between them and those which are created for commercial purposes, the unavoidable outcome is that legal tender quality must be given by law to all the notes.

Now let us see what is the amount of the advances made up to date by the Bank of France to the government. When the privilege of the bank was renewed in 1897 for twenty-three years (to December 31, 1920) a condition of this renewal was that she agreed to advance permanently to the state 200 millions of francs, bearing no interest and not repayable before the expiration of the privilege. But this is only a trifle as compared with the huge sums loaned since the beginning of the war. By a convention dated 1911, the bank was bound to lend 2,900 millions at the outbreak of war; this amount was raised to 6,000 millions in September, 1914, and to 9,000 millions in May, 1915. This of course is the maximum limit: at the present moment (September, 1915) the government has made use of its borrowing power from the bank only to the extent of about 7,000 millions of francs. This figure appears in the weekly balance sheet of the bank, which is regularly published.

In order to enable the bank to create the notes required, the maximum of circulation, which since 1870 has been fixed by law, has been constantly raised. Following are the dates at which the maximum has been increased:

Date	Millions of francs	Date	Millions of francs
August 12, 1870	1,800	November 17, 1897	5,000
August 14, 1870	2,400	February 9, 1906	5,800
December 29, 1871	2,800	December 29, 1911	6,800
July 15, 1872	3,200	August 5, 1914	9,000
January 30, 1884	3,500	September, 1914	12,000
January 25, 1893	4,000	May 11, 1915	15,000

Until the beginning of the war, the increase of the limit had been rendered necessary by the development of discount and loan business and also by the growing of the gold stock, which at the beginning of the twentieth century was nearly equal to the notes outstanding. But since the outbreak of the present war, the raising of the

limit has been exclusively due to the wants of the state. The bills discounted have not been increasing, as the ordinary business is rather at a standstill. A good part of the bills which had been moratored, *i. e.*, of which the drawers had been allowed to postpone the payment, have gradually been paid, so that the whole of the bills discounted still in the assets of the bank does not amount to much more than 2,000 millions of francs. The loans on securities are at about the same figure as they were one year ago, so that the main moves in the position of the Bank of France may be summarized in the following manner. The bills discounted have decreased, the loans remained unchanged, the government debt has grown regularly and is likely to do so, until the issue of bonds to be subscribed by the public will enable the state to repay to the bank the loans made to it. The total of the gold in hand had, till lately, remained about unchanged since the beginning of the war. As already explained, a marked improvement has now taken place and several hundred millions of francs have poured into the vaults of the bank. This fact is due to a remarkable move of the public. Citizens understood that the hoarding of metal by private people which, in time of peace, is of no good to them, injures the government's credit in war times; since for the extension of the note circulation, it then becomes imperative to have as much specie as possible as a basis for the paper. As soon as this idea was spread over the country, coins of 20 and 10 francs, also the old and rare coins of 40, 50, 100 francs, kept in many families as a kind of venerable relic coming from the ancestors, were eagerly brought by their owners to the bank-counters or to the post-offices, to be exchanged against banknotes. Week by week the bullion account of the bank was swollen, in spite of the fact that the bank had to export large

quantities, on account of the purchases made for military purposes both in the United Kingdom and in the United States. Once more the French nation has with admirable unanimity understood her duty and done it in a quick and intelligent way.

The following table indicates the main changes which took place in the balance sheet of the Bank of France between 30th July, 1914 and 26th August, 1915 (in millions of francs).

<i>Assets</i>			<i>Liabilities</i>		
	30/7/1914	26/8/1915		30/7/1914	26/8/1915
Bills discounted	2,444	2,335	Notes issued	6,683	12,950
Loans on securities . .	758	587	Private deposits	947	2,462
Silver currency	625	367			
Gold coins and bullion	4,141	4,266			
Government debt	200	6,500			
Treasury bills dis- counted (against loans to allies)		460			

The main feature is the increase in circulation, which has nearly doubled, for the reasons just explained, and in deposits, which have nearly trebled. Many people, in times of emergency, trust to the Bank of France more than to any other bank, and keep as much as possible of their money with her.

IV. PRIVATE AND SAVINGS BANKS

In order to get a full view of the banking situation, one has to consider not solely the position of the Bank of France. Besides this great institution, which is half of private character, half of public, there are joint stocks banks, which play a prominent part in French finance. They are not tied together like the associated banks of New York; they are not subject to any legal rules regarding their deposits and their reserves. Nevertheless they hold a good deal of the private depositors' moneys, and their action in the money market is important.

They do a large part of the discounting business of the country. In ordinary times many customers bring their bills to these banks and not to the Bank of France, which is the "bank of banks" and generally rediscounts only when the other banks want to turn their portfolio of bills into cash. The aggregate Paris banks, often called "établissements de crédit," several of which have branches scattered all over France, have several billions of francs deposits, and use a great part of them in loans and discounts. The war made itself felt very strongly in their position; it reduced the volume of their business: first because, generally speaking, every trade, except some specialities, was contracted on account of the mobilization and the invasion of a part of the territory; secondly, because the directors wanted to make their assets as liquid as possible and to avoid any new undertakings.

This appears clearly from the comparison between the figures of the balance sheet of the main French banks at dates before the war and after. We quote underneath the *Crédit Lyonnais*, the *Société Générale*, the *Comptoir d'Escompte*, the *Crédit Industriel*, the *Crédit Mobilier*. Each of them with one exception has now a much larger amount of cash in hand than twenty months ago, whereas their liabilities to depositors, have largely diminished. It appears that under present conditions the management of these big concerns is more prudent than ever and that they wish to be prepared for any emergency. The figures are in millions of francs.

CRÉDIT LYONNAIS

Assets			Liabilities		
	30/6/1914	31/5/1915		30/6/1914	31/5/1915
Cash in hand or with			Deposits	965	648
other banks	231	678	Other creditors	1,416	1,033
Bills discounted	1,648	901	Acceptances	117	15
Loans on securities	356	262			
Current account	714	401			

SOCIÉTÉ GÉNÉRALE

<i>Assets</i>			<i>Liabilities</i>		
	31/12/1913	31/12/1914		31/12/1913	31/12/1914
Cash in hand or with			Deposits	673	457
other banks	173	102	Other creditors	1,118	624
Bills discounted	889	277	Acceptances	176	102
Loans on securities	447	318			
Current accounts	561	608			

COMPTOIR D'ESCOMPTE

<i>Assets</i>			<i>Liabilities</i>		
	31/12/1913	31/12/1914		31/12/1913	31/12/1914
Cash in hand or with			Deposits	695	482
other banks	124	386	Other creditors	668	507
Bills discounted	1,004	356	Acceptances	175	32
Loans on securities	201	174			
Current accounts	166	179			

CRÉDIT INDUSTRIEL

<i>Assets</i>			<i>Liabilities</i>		
	31/12/1913	Aug. 1915		31/12/1913	Aug. 1915
Cash in hand or with			Deposits	117	91
other banks	20	59	Other creditors	116	79
Bills discounted	142	49	Acceptances	25	23
Loans on securities	59	46			
Current accounts	26	34			

CRÉDIT MOBILIER FRANÇAIS

<i>Assets</i>			<i>Liabilities</i>		
	June, 1914	June, 1915		June, 1914	June, 1915
Cash in hand or with			Deposits	30	18
other banks	27	39	Other creditors	58	43
Bills discounted	51	10	Acceptances	17	nil
Loans on securities	7	11			
Current accounts	49	46			

Besides these five there are a number of other *établissements de crédit*, both in Paris and in the provinces, which together have further billions of deposits. There are also the savings banks (*caisses d'épargne*) which are not joint stock (*sociétés par actions*) but corporations half official in character, subject to rules and regulations by the government. They have to use their deposits either by purchasing national bonds or by depositing them with the *Caisse de dépôts et de consignations*, an official establishment where many moneys from different sources are concentrated. Following is the last

balance sheet published by this *Caisse de dépôts et de consignations*, 31st December, 1913:

<i>(millions of francs)</i>			
<i>Assets</i>		<i>Liabilities</i>	
Cash and bills receivable	1	Due to depositors (judicial)	374
French bonds, railroad debentures (moneys deposited)	354	Due to savings banks	4,110
French bonds, railroad debentures (moneys belonging to friendly societies)	339	Due to friendly societies	446
French bonds and securities be- longing to reserves of savings banks	230	Surplus and guarantee fund belong- ing to savings banks	310
French bonds and sundry securi- ties (for account of savings banks)	4,018	Sundry depositors	228
Loans	4	Pensions account (retraites ouvri- ères et paysannes)	8
Loans to department, municipali- ties, public corporations	119	Due to public insurance institutions and savings banks (current ac- count)	108
Current accounts of public Trea- sury and Bank of France	555	Due to sundry agents	4
		Reserve	28
		Profit	4
	5,620		5,620

The above balance sheet shows clearly the working of the Caisse. It is above all the bank of the savings banks (*caisses d'épargne*) and friendly societies (*sociétés de secours mutuels*), which have to deposit all their moneys with it: out of the 5,620 millions francs liabilities, 4,866 were from this source. The Caisse gets the money and invests in securities which are mainly government securities, — 3 per cent rentes perpetual and redeemable, Treasury bills, Treasury bonds, state railroad debentures, private railroad debentures, debentures of the *Crédit foncier de France*, the official mortgage bank. The moneys which have not been invested in securities are advanced to the state and to departments, municipalities, public corporations. It is necessary to take into account the figures of this institution when one has to draw a complete statement of banking deposits in France, when compared with other countries, like the United States. In this latter country all the deposits are in the hands of banks. The only point which in America

presents some resemblance with French organization, is the postal savings organization, by which the post offices issue to depositors United States $2\frac{1}{2}$ per cent bonds. In France the depositors may also apply for government bonds, but no special issue is made for them: the bonds are simply bought in the market. Whenever an individual deposit rises above 1,500 francs, the surplus is automatically used for the buying of state bonds.

Besides the private savings banks, France has also the *Caisse nationale d'épargne*, which receives deposits and pays interest to depositors. It is managed through the post offices all over the country. The balance of deposits on the 31st December, 1913, was 1,818 millions of francs; it has doubled within the fifteen years, 1898–1913. There were 6,400 accounts opened, which means an average deposit of 283 francs per head.

Adding the deposits in private savings banks and in the *Caisse nationale d'épargne*, we find that the total savings deposits at the end of 1913 were nearly six billions of francs.

V. FOREIGN EXCHANGE

The matter of foreign exchange has been much talked of since the beginning of the war and deserves careful examination. It has been under two entirely different influences and has gone into opposite directions a year ago and at present.

The first effect of the crisis which burst like a thunderbolt at the end of July, 1914, was to induce people to collect as much of liquid assets as they could. As a rule, they were wholly unprepared for the emergency. They realized at once that the fighting would be long and hard, and they wanted to collect cash on hand to provide for their living during the coming trials. As they

could not sell their French securities, the stock exchange being closed, they fell back upon their foreign investments, of which French capitalists own something like 30 or 40 billions of francs, and tried to secure money from them. At the same time they drew back the credit balances which they had opened with their outside bankers, especially in London and New York. This action taken simultaneously by many customers brought naturally a very sharp fall in the value of pounds sterling and dollars on the French market, as everybody wanted to sell whatever quantity of these they had at their disposal in England or the States, disregarding any loss in exchange. This was the reason for the almost incredible quotations which were experienced during the summer and the fall of 1914, when the English sovereign, containing 25 fr. 22 of gold, was sold as low as 24 fr. 50 and the American dollar containing 5 fr. 18 of gold came down to 4 fr. 70. This movement was intensified by the English and American travelers who, having been surprised by the declaration of war, wanted to sell at any price their checks on home bankers, in order to get continental money and clear up their accounts before sailing. At the same time the United States had a large indebtedness towards Europe, which was another reason for the depreciation of the dollar.

This exchange panic — for no other name can describe a state of things during which people sold checks payable in gold at something like 7 per cent under their par value — lasted for a few weeks. Then a quieter view of the situation was taken; the Marne victory restored confidence in France, and the foreign exchanges, especially the English and American, went up steadily. But for many weeks they stood much under parity, on account of the continuous calling in of their balances through French investors. It was not until the close of

1914 that pounds sterling and dollars were at par, *i. e.*, 25.22 and 5.18.

Then two other factors came in and made themselves violently felt. I will consider the relations between France and the States. French exports diminished considerably and fell by more than one-half compared with the figures before the war. At the same time French imports from America rose by high amounts, as supplies of all sorts were freely sold to the Government. For these reasons hundreds of millions of francs, say billions, had to be transferred from Paris to New York, and this brought a constant rise of the dollar, which was soon quoted above par and which has been brought to the present high level of 6 francs, which means 16 per cent premium. At the same time, the expenses of American travelers in France were much reduced, so that another way of compensating the French debts was taken away, and the want of American funds was the more felt in Paris.

Of course this is not a lasting influence. The present high level of exchange is a momentary phenomenon. Nevertheless it handicaps the trade between the two countries, as it means a heavy additional burden for French buyers. A loan granted by American capitalists to France would equally serve the interests of both countries.

VI. PUBLIC FINANCE

Public finance is a most important part of war, especially in a war like the present, which involves the use of every sinew of the nation, which takes every valid man away from his home and employs him in the army or in the manufactures of arms, guns, ammunition. Roughly speaking, the daily expenses, which at the start were something like 35 millions of francs per day, have now

nearly doubled and may be estimated at 60 millions; which means 22 billions per year, 5 billions of dollars, a sum never heard of before. From the speech delivered by M. Ribot in the House of Deputies on the 25th June, 1915, it appears that the monthly war expenditure was 1,340 millions per month in the last part of 1914; it rose towards the middle of 1915 to 1,870 millions francs per month.

The ordinary receipts of the government have been suffering from the war. During the first six months of 1915, the so-called indirect taxes were 40 per cent less than in the same period of 1914. The direct taxes have kept in proportion a higher level, as they are assessed not upon real income but upon the so-called exterior signs of wealth, which have suffered no change since the declaration of war. They receded only 30 per cent below the sum which they ought to have brought in, according to the time elapsed since the beginning of the year. These direct taxes, as a rule, are payable in monthly instalments.

In time of peace, the French annual expenditure came already near to 6 billions francs, which was considered extremely high, and was due partly to military and naval establishments, partly to an enormous increase of civil service and of the so-called social legislation, such as old-age pensions, assistance of every kind, state monopolies, and the like. The public expenses had been growing lately at a very quick pace: they had nearly doubled since the end of the nineteenth century, and many criticisms had been directed towards the way in which they had been inflated in nearly every direction. Complaints were also frequent that, in peace time, the public debt had not been reduced and that it stood still in the books for more than 30 billions of francs, besides a heavy charge from civil and military pensions.

In spite of this, a new loan of 800 millions had been issued just before the outbreak of the war, on the 7th of July, 1914. But only partial instalments had been paid on the scrip, and this induced the minister of finance to have these $3\frac{1}{2}$ bonds later exchanged against 5 per cents issued in the winter of 1915.

How did the Minister, M. Ribot, provide for the expenditure which was covered only to a small extent by the ordinary receipts? It was difficult to assess new taxes, the more so as some of the richest departments were still in the hands of the Germans and it would not have been possible to collect them on the whole of the territory. So the money had to be borrowed, and this was done under three different headings. First, as explained already, the Bank of France advanced over 6 billions of francs. This is done at a very low rate, 1 per cent per annum, which will be raised to 3 per cent after peace. Secondly, there have been issued Treasury bills, so-called *bons de la défense nationale*, which bear 4 per cent interest when issued at three months date, 5 per cent when for six months or one year. Of these something like 7 billions are outstanding at present. Thirdly, there have been created 5 per cent *obligations de la défense nationale*, which are repayable at par at earliest in 1925, at latest in 1928; sold at 96.50. If repaid in 1925, this would mean a return of 5.68 per cent. Some 2 billions of these have been issued. All this means 15 billions obtained by the Treasury through the three different means. We may still add 1,500 millions advanced by the Exchequer of the United Kingdom against 500 millions gold sent from France to England.

It is probable that before the end of 1915, a consolidated loan will be issued, *i. e.*, either perpetual rentes or bonds repayable within a period say of twenty or thirty

years. All this will mean a heavy burden on France. But nobody ought to be nervous about her perfect willingness and ability to meet all her obligations. One must never forget that France has a vast supply of resources on her soil and in her inhabitants.

Apprehensions seem to have been expressed in some quarters that this growing debt might imperil the contributive strength of the country. Mr. Arthur Richmond Marsh, in the *Economic World*, wisely explained these fears to be unreasonable. The high rate of interest at which France, like the other belligerent countries, is now borrowing does not indicate any weakening of her credit. But the general conditions of the monetary market being changed by war, she has to undergo the new rate of interest and to pay a higher figure than in time of peace. Just before the war, in July, 1914, she issued a $3\frac{1}{2}$ per cent rente; now she has to pay 5 per cent; just as England, whose credit was on a 3 per cent basis, has now to pay $4\frac{1}{2}$. At present France is offering to investors 5 per cent bonds at $96\frac{1}{2}$. In 1871, she offered 5 per cent rentes at $82\frac{1}{2}$; a few years later these 5 per cent rose to 128; and they were quickly paid off and replaced within a few years by $4\frac{1}{2}$, afterwards $3\frac{1}{2}$, finally 3 per cent rentes. The 3 per cent bonds, towards the end of the nineteenth century, were quoted much above par, up to 106. Did not the United States, in a similar way, issue during the civil war, 6 per cent bonds, and thirty years later borrow at 3 per cent? The creditors of nations which have always been conspicuous in financial and economical strength need not have the least fear regarding the exact fulfilment of their obligations. Nothing, under the conditions brought about by the war, implies the slightest deterioration of the credit of France. Nor must the movement of international exchange against France be taken as an indication of

impaired credit. All that it signifies is that there is a temporary partial interruption on her part of the production of the articles and the commodities which she ordinarily sends to the countries from which she is buying. After peace is concluded, exchange will return to its normal level, and the dollar will cease to be worth more than 5.18 frs., *i. e.*, exactly its gold content.

Some people have begun to study the main lines of the coming budgets. Without imposing any new taxes, the French government could raise easily 1,200 millions yearly by increasing some of the existing taxes. The following scheme was drawn up by the author of the present article in January last:

	Millions of francs
Ten per cent more on so-called direct taxes	63
Ten per cent on registration duties	80
Ten per cent on stamp duties	22
Ten per cent on colonial imported goods	15
Ten per cent on indirect taxes	85
Ten per cent on tobacco monopoly	53
Abolishment of the privilege of so-called <i>bouilleurs de cru</i> (landowners distilling their own fruit)	100
Tax on lighting	20
Doubling the tax on the so-called hygienic drinks (wine, beer)	83
Doubling the tax on spirits	200
Doubling tax on passengers' tickets, 1st and 2d class . . .	30
Giving up the state railway to a private company	60
Retaining for the Treasury the tax on totalisators (heretofore assigned to charities)	40
Retaining for the Treasury the annual taxes paid by the Bank of France (heretofore devoted to rural credit) . . .	15
Extension of the concession of the railroads	130
Tax of $\frac{1}{4}$ of a centime per ton-kilometer on goods carried on the canals owned by the state	15
	<hr/> 10,11

This gives an idea of what can be done in France in the way of collecting the fresh moneys wanted for the interest of the heavy loans which will have to be raised.

An important part of this scheme has already been endorsed by the Minister of Finance, M. Ribot, who laid before Parliament, in August, 1915, a draft regulating the alcohol duties in the way indicated above, *i. e.*, suppressing the privilege of landowners and doubling the tax on spirits. Another important part of the scheme is that regarding the railroads. All these belong to the state; but four-fifths of them are leased to private companies which have to surrender about 32,000 kilometers of track, free of every debt and charge, about the middle of the century, between 1948 and 1960. At that time the government will inherit this magnificent property, estimated about 20 billions of francs, which is a most valuable asset. If the state were ready to grant a longer lease, say for twenty or thirty years, it would get immediately from the lessees a much larger income, which would increase its yearly resources. The giving up of the part of the railroads which are presently worked by the state officials to a private company would also mean a sure gain for public finance, as the working expenses of these lines have tremendously swollen since they have been in public hands. The levying of a very light tax on internal navigation would be only fair, as there is no good reason for giving free use of these waterways, whereas every carrier has to pay for the use of railroads.

VII. COMPARISON WITH 1870-71

It is natural to compare the present state of things with that of 1870-71, the last great crisis which overcame France and which was also determined by a German attack upon an unprepared country. But the number of men in the field, the power of the engines used on earth, on and under sea, and in the air, has so

tremendously grown that there is little resemblance between the two cases. In 1869 the annual expenditure of France was something like $1\frac{3}{4}$ billions; in 1913 it was nearly 6 billions. The advances made forty-five years ago by the Bank of France amounted at the utmost to 1,800 millions; now they have already reached the figure of 6,800 millions. In 1870, 1871, and 1872 France borrowed about 6 billions, out of which she repaid the loan of the bank. She increased the taxes so as to be able to bear the new expenses and to make good for all the expenses of the war, including the indemnity to be paid to Germany. All this was done through an account called *compte de liquidation*, which remained opened for about ten years and through which went all the expenses arising from the war. Already the floating debt amounts to a sum which surpasses the whole amount borrowed for the former war, and we must be prepared for still larger loans to be contracted in the country or abroad.

In 1870 the only loan issued out of the borders was the so-called Morgan loan, subscribed in London in October; it amounted to 250 millions francs. All the moneys wanted for payments to be made in foreign countries came out of the proceeds of the sale of foreign securities held by French investors, who let them go and replaced them by French rentes issued at low prices from which they derived a large profit. The same will be done now. Some difficulty arises from the fact that the war extends over a great number of countries and threatens even neutrals, so that the selling of securities is not easy except in the United States. Hence, the ownership of foreign bonds does not prove as useful to Frenchmen as it proved half a century ago. However as Mr. Lloyd George said in the House of Commons, England could finance war during five years and France

during three years with the amount invested by both the countries in foreign securities.

If people should be disturbed by the difference between the sums wanted in 1870 and those needed in the present war, I would point out that the ordinary expenditure of France before the present war was about three times higher than in 1869. This justifies the conclusion that the country can bear a debt three times as large as it was at that time. The time will also come when neutral markets will recover their strength and give a good chance to holders of securities to get for them a reasonable price. This will be the signal for return to normal conditions. In spite of the enormous sums required, Frenchmen will find them with comparative ease. Hardworking and thrifty as they are, they will till their fields, reopen their manufactures, create new ones, open more markets for their goods and astonish the world once again by their vitality and their energy.

RAPHAËL-GEORGES LÉVY.

MEMBER OF THE INSTITUTE OF FRANCE.